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UNCLAS HARARE 001697

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

E. O. 12958: N/A

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SUBJECT: Ho-Hum Supplementary Budget

1. Summary: The GOZ's supplementary budget announcement held no surprises. Spending for calendar year 2003 increased 85 percent, accounting for higher than forecast (by the GOZ) inflation. In his speech to parliament, Finance Minister Herbert Murerwa brokered no solutions to Zimbabwe's many economic crises. End Summary.

2. In what has become an annual ritual, the GOZ announced a supplementary budget on August 21 that revises the initial budget's fanciful spending projections. The Z\$672 billion supplementary budget increases the original's budget's Z\$784 billion allocation to Z\$1,442 billion. The GOZ's inability to pare inflation down to a projected 96 percent (it's currently 400 percent) has meant higher outlays in local currency. The pay of most civil servants has more than doubled.

Controversial Issues Not Addressed

3. The Finance Minister did not say:

- whether nominally higher tax revenues (due to inflation) would cover the proposed appropriations, or how much the GOZ intends to borrow through domestic bonds. The GOZ published no new revenue projections.

- how and when the GOZ would renormalize fuel imports. (Gas stations have been completely dry for four months. Most motorists depend on the black market.)

- when and by how much the GOZ will devalue the Zimdollar. The official rate of Z\$824:US\$1, less than one-sixth the market rate, causes exporters to sacrifice nearly half their revenue. (They must exchange 50 percent of earnings at the official rate.) A more realistic exchange rate would undoubtedly boost GOZ export receipts.

- how the GOZ intends to solve the cash crisis. The shortage of banknotes has made life taxing for all Zimbabweans, distressing for the poor.

Comment

4. Last week's budget announcement reinforces the perception that GOZ decision-making remains comatose. While there are vested fuel interests that stand to lose market share when multinationals reenter the game, the GOZ has little to lose by raising the official exchange rate (few can buy dollars at Z\$824:US\$1) or printing larger banknotes (a matter of pride). Somehow it is impossible for reasonable proposals from the Ministry of Finance or Reserve Bank to move up the line.

Sullivan